

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-13
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 14
Statement of Activities	B 15
Governmental Fund Financial Statements:	
Balance Sheet	C 16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 17
Statement of Revenues, Expenditures and Changes in Fund Balances	E 18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 19
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 20
Statement of Revenues, Expenses and Changes in Net Assets	H 21
Statement of Cash Flows	I 22
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	J 23
Statement of Changes in Fiduciary Net Assets	K 24
Notes to Basic Financial Statements	25-36
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	37
Notes to Required Supplementary Information - Budgetary Reporting	38
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 40
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 41
Fiduciary Fund, Private Purpose Trust Accounts:	
Combining Statement of Fiduciary Net Assets	4 42
Combining Statement of Changes in Fiduciary Net Assets	5 43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6 44
Schedule of Expenditures of Federal Awards	7 45-46
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	47-48
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	49-50
Schedule of Findings and Questioned Costs	51-57

Marshalltown Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 Election)		
Bob Christensen	President	2005
Wayne Sawtelle	Vice President	2005
Adrienne Macmillen	Board Member	2007
Kent Loney	Board Member	2007
Pam Swarts	Board Member	2006
Richard Russell	Board Member	2006
Anne Bacon	Board Member	2006
Board of Education		
(After September 2005 Election)		
Bob Christensen	President	2008
Adrienne Macmillen	Vice President	2007
Linda Borsch	Board Member	2008
Kent Loney	Board Member	2007
Pam Swarts	Board Member	2006
Richard Russell	Board Member	2006
Anne Bacon	Board Member	2006
School Officials		
Dr. Harrison E. Cass, Jr.	Superintendent	2006
Dan Gillen	District Secretary/ Director of Finance	2006
Rex J. Ryden	Attorney	2006
Ahlers & Cooney, P.C.	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Marshalltown Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshalltown Community School District, Marshalltown, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshalltown Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2006 on our consideration of the Marshalltown Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Marshalltown Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

November 9, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Marshalltown Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$37,988,962 in fiscal 2005 to \$40,325,864 in fiscal 2006, while General Fund expenditures increased from \$37,740,162 in fiscal 2005 to \$39,504,806 in fiscal 2006. The overall result was an increase in the District's General Fund balance from a deficit balance of \$1,033,254 in fiscal 2005 to a deficit balance of \$212,196 in fiscal 2006, a 79.46% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax and state and federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the instruction functional area. The reason the General Fund balance increased is because the increase in expenditures was less than the increase in revenues for fiscal 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Marshalltown Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Marshalltown Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Marshalltown Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Marshalltown Community School District Annual Financial Report

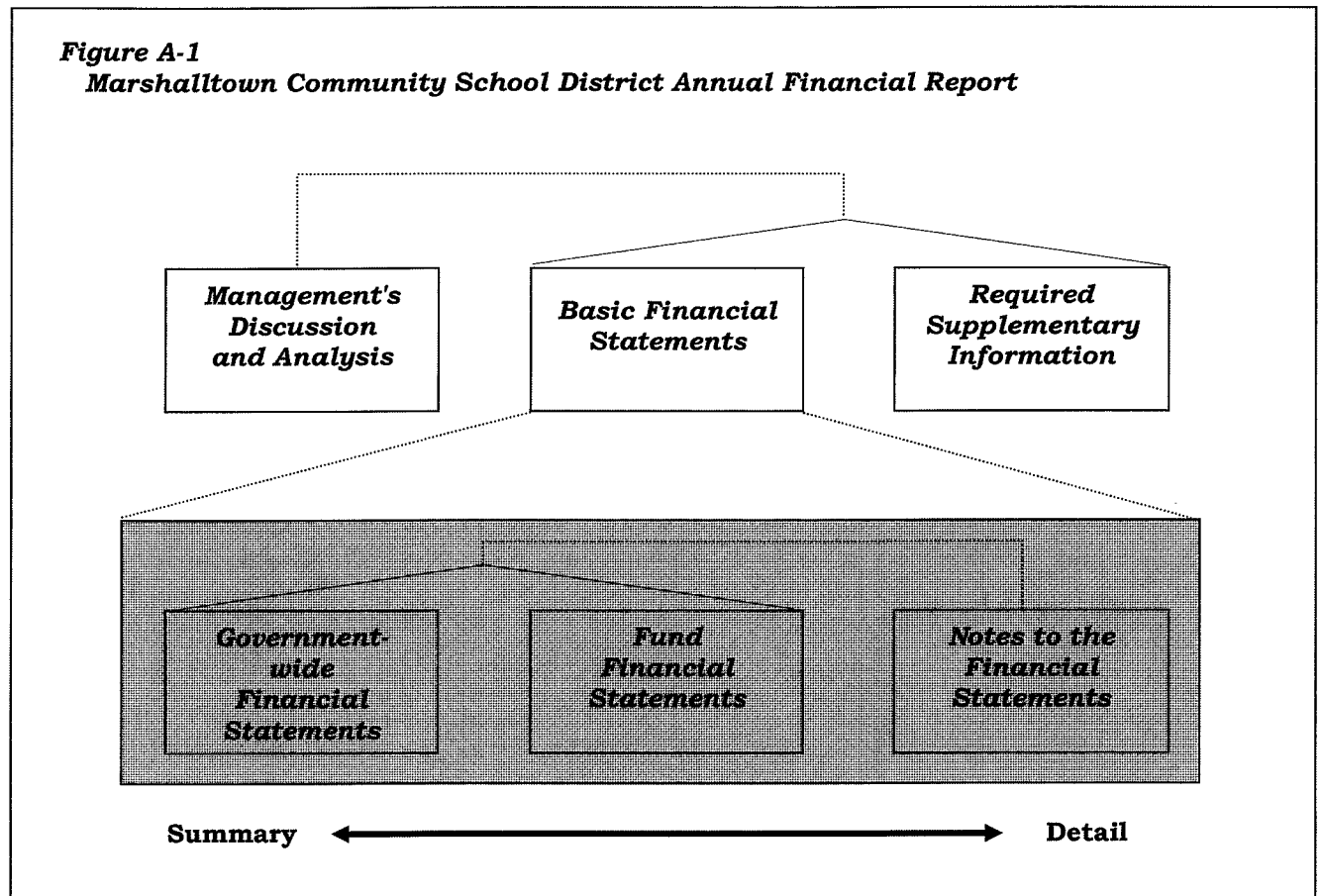


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Caring Resale Fund. The District's internal service funds (another type of proprietary fund) are the same as its governmental activities but provide more detail and additional information, such as cash flows. The District has one internal service fund: Self-funded Insurance.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private Purpose Trust Fund.

- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 37,481,475	46,631,528	529,048	524,372	38,010,523	47,155,900	-19.39%
Capital assets	31,310,702	16,690,184	250,359	278,147	31,561,061	16,968,331	86.00%
Total assets	68,792,177	63,321,712	779,407	802,519	69,571,584	64,124,231	8.49%
Long-term obligations	30,694,985	31,558,417	0	0	30,694,985	31,558,417	-2.74%
Other liabilities	26,266,403	23,651,145	136,363	123,590	26,402,766	23,774,735	11.05%
Total liabilities	56,961,388	55,209,562	136,363	123,590	57,097,751	55,333,152	3.19%
Net assets:							
Invested in capital assets, net of related debt	15,536,501	13,098,766	250,359	278,147	15,786,860	13,376,913	18.02%
Restricted	376,623	309,687	0	0	376,623	309,687	21.61%
Unrestricted	(4,082,335)	(5,296,303)	392,685	400,782	(3,689,650)	(4,895,521)	24.63%
Total net assets	\$ 11,830,789	8,112,150	643,044	678,929	12,473,833	8,791,079	41.89%

The District's combined net assets increased by 41.89%, or \$3,682,754, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$66,936, or 21.61% over the prior year. The increase was primarily a result of the increase in the Special Revenue, Public Education and Recreation Levy(PERL) and Student Activity Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$1,205,871, or 24.63%. This increase in unrestricted net assets was primarily a result of the increase in the fund balances of the General and Special Revenue, Management Levy Fund.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,916,527	2,086,931	805,103	782,554	2,721,630	2,869,485	-5.15%
Operating grants and contributions and restricted interest	5,804,892	5,223,233	1,275,808	1,241,093	7,080,700	6,464,326	9.54%
Capital grants and contributions and restricted interest	0	787,973	0	0	0	787,973	-100.00%
General revenues:							
Property tax	13,352,130	12,237,526	0	0	13,352,130	12,237,526	9.11%
Local option sales and services tax	2,869,228	2,722,058	0	0	2,869,228	2,722,058	5.41%
Unrestricted state grants	22,187,815	21,183,788	0	0	22,187,815	21,183,788	4.74%
Other	741,679	494,234	9,037	3,143	750,716	497,377	50.94%
Total revenues	46,872,271	44,735,743	2,089,948	2,026,790	48,962,219	46,762,533	4.70%
Program expenses:							
Governmental activities:							
Instructional	26,710,083	27,845,876	0	0	26,710,083	27,845,876	-4.08%
Support services	13,122,683	11,243,350	0	0	13,122,683	11,243,350	16.72%
Non-instructional programs	0	108,920	2,125,833	2,055,636	2,125,833	2,164,556	-1.79%
Other expenses	3,320,866	3,140,286	0	0	3,320,866	3,140,286	5.75%
Total expenses	43,153,632	42,338,432	2,125,833	2,055,636	45,279,465	44,394,068	1.99%
Changes in net assets before other financing sources(uses)	3,718,639	2,397,311	(35,885)	(28,846)	3,682,754	2,368,465	-55.49%
Other financing sources(uses), net	0	433,226	0	(1,473)	0	431,753	-100.00%
Changes in net assets	3,718,639	2,830,537	(35,885)	(30,319)	3,682,754	2,800,218	31.52%
Net assets beginning of year	8,112,150	5,281,613	678,929	709,248	8,791,079	5,990,861	46.74%
Net assets end of year	\$ 11,830,789	8,112,150	643,044	678,929	12,473,833	8,791,079	41.89%

In fiscal 2006, property tax and unrestricted state grants account for 75.8% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.6% of the revenue from business type activities.

The District's total revenues were approximately \$49 million of which \$46.9 million was for governmental activities and \$2.1 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced a 4.7% increase in revenues and a 1.99% increase in expenses. The increase in expenses was related to increases in the administration and operation and maintenance of plant services functional area.

Governmental Activities

Revenues for governmental activities were \$46,872,271 and expenses were \$43,153,632.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 26,710,083	20,718,793
Support services	13,122,683	12,961,683
Other expenses	3,320,866	1,751,737
Totals	<u>\$ 43,153,632</u>	<u>35,432,213</u>

- The cost financed by users of the District's programs was \$1,916,527.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$5,804,892.
- The net cost of governmental activities was financed with \$13,352,130 in property tax, \$2,869,228 in local option sales and services tax, \$22,187,815 in unrestricted state grants and \$677,956 in net interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$2,089,948 and expenses were \$2,125,833. The District's business-type activities include the School Nutrition and Caring Resale Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Marshalltown Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$9,380,732, above last year's ending fund balances of a deficit \$21,311,509. However, the primary reason for the decrease was from the construction in the Capital Projects Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in property tax and state and federal grants resulted in an increase in revenues. The increase in revenues was more than the increase in General Fund expenditures ensuring the financial position of the District to increase.
- The Activity and Expendable Trust Fund combined balance increased from \$141,968 in 2005, to \$152,969 in 2006, due to the increase in both funds.

-
- The Physical Plant and Equipment Levy (PPEL) and Public Education and Recreation Levy (PERL) combined fund balance decreased from \$463,774 to \$434,620, due to a transfer of funds out of the PPEL Fund to the Debt Service Fund during the year.
 - The Capital Projects fund balance decreased during the current year, from \$22,465,837 to \$9,641,871. This was a result of an increase in expenses associated with construction projects occurring during the year.
 - The Debt Service fund balance decreased from \$141,405 to \$138,327. This was a result of a no tax levy for debt service and an increase in bond principal and interest payments.

Proprietary Fund Highlights

The Enterprise Funds net assets decreased from \$678,929 at June 30, 2005 to \$643,044 at June 30, 2006, representing a decrease of 5.28%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$113,768 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were more than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$31.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 135.76% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$585,337.

The original cost of the District's capital assets was \$47.8 million. Governmental funds account for \$47.2 million with the remainder of \$.6 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$16,768,063 at June 30, 2006, compared to \$4,753,347 reported at June 30, 2005. This increase resulted from projects that are started but completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 546,927	468,403	0	0	546,927	468,403	16.76%
Construction in progress	16,768,063	4,753,347	0	0	16,768,063	4,753,347	252.76%
Buildings	13,161,487	10,960,328	0	0	13,161,487	10,960,328	20.08%
Land improvements	175,042	0	0	0	175,042	0	100.00%
Machinery and equipment	659,183	508,106	250,359	278,147	909,542	786,253	15.68%
Total	\$ 31,310,702	16,690,184	250,359	278,147	31,561,061	16,968,331	135.76%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$30,694,985 in general obligation and other long-term liabilities. This represents a decrease of 2.74% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$25,600,000 at June 30, 2006.

The District also had total outstanding early retirement payable of \$4,999,414 from the Special Revenue, Management Fund at June 30, 2006.

The District had compensated absences payable of \$95,571 from the General Fund at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 25,600,000	24,930,000	2.69%
Revenue bans	0	802,000	-100.00%
Capital loan notes	0	555,000	-100.00%
Early retirement	4,999,414	5,161,975	-3.15%
Compensated absences	95,571	109,442	-12.67%
Total	\$ 30,694,985	31,558,417	-2.74%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced stable enrollment for a few years, the District expects enrollment to remain the same.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2004.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dan Gillen, District Board Secretary/Director of Finance, Marshalltown Community School District, 317 Columbus Dr., Marshalltown, Iowa, 50158.

BASIC FINANCIAL STATEMENTS

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 5,000,370	0	5,000,370
Other	15,067,304	488,226	15,555,530
Receivables:			
Property tax:			
Delinquent	207,201	0	207,201
Succeeding year	14,802,922	0	14,802,922
Interfund	89,193	0	89,193
Accounts	577,801	6,932	584,733
Accrued ISCAP interest(Note 5)	31,590	0	31,590
Due from other governments	1,247,506	0	1,247,506
Prepaid expenses	409,377	0	409,377
Inventories	48,211	33,890	82,101
Capital assets, net of accumulated depreciation(Note 6)	31,310,702	250,359	31,561,061
Total Assets	68,792,177	779,407	69,571,584
Liabilities			
Interfund payable	0	89,193	89,193
Accounts payable	1,596,472	11,878	1,608,350
Interest payable	206,429	0	206,429
Salaries and benefits payable	3,758,518	35,292	3,793,810
Deferred revenue:			
Succeeding year property tax	14,802,922	0	14,802,922
Other	154,293	0	154,293
ISCAP warrants payable(Note 5)	5,000,000	0	5,000,000
ISCAP accrued interest payable(Note 5)	27,331	0	27,331
ISCAP unamortized premiums payable	36,003	0	36,003
Incurred but not reported claims	684,435	0	684,435
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	900,000	0	900,000
Early retirement	1,153,368	0	1,153,368
Compensated absences	95,571	0	95,571
Portion due after one year:			
General obligation bonds	24,700,000	0	24,700,000
Early retirement	3,846,046	0	3,846,046
Total Liabilities	56,961,388	136,363	57,097,751
Net Assets			
Investment in capital assets, net of related debt	15,536,501	250,359	15,786,860
Restricted for:			
Salary improvement program	41,064	0	41,064
Public education and recreation levy	182,590	0	182,590
Other special revenue purposes	152,969	0	152,969
Unrestricted	(4,082,335)	392,685	(3,689,650)
Total Net Assets	\$ 11,830,789	643,044	12,473,833

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 14,599,703	488,818	3,903,815	(10,207,070)	0	(10,207,070)
Special instruction	6,475,933	274,561	308,807	(5,892,565)	0	(5,892,565)
Other instruction	5,634,447	1,015,289	0	(4,619,158)	0	(4,619,158)
	26,710,083	1,778,668	4,212,622	(20,718,793)	0	(20,718,793)
Support services:						
Student services	1,629,194	0	0	(1,629,194)	0	(1,629,194)
Instructional staff services	2,185,700	0	0	(2,185,700)	0	(2,185,700)
Administration services	4,846,779	0	0	(4,846,779)	0	(4,846,779)
Operation and maintenance of plant services	3,337,134	0	0	(3,337,134)	0	(3,337,134)
Transportation services	1,123,876	137,859	23,141	(962,876)	0	(962,876)
	13,122,683	137,859	23,141	(12,961,683)	0	(12,961,683)
Other expenditures:						
Facilities acquisitions	46,440	0	0	(46,440)	0	(46,440)
Long-term debt interest	1,248,273	0	0	(1,248,273)	0	(1,248,273)
AEA flowthrough	1,569,129	0	1,569,129	0	0	0
Depreciation(unallocated)*	457,024	0	0	(457,024)	0	(457,024)
	3,320,866	0	1,569,129	(1,751,737)	0	(1,751,737)
Total governmental activities	43,153,632	1,916,527	5,804,892	(35,432,213)	0	(35,432,213)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	2,112,527	790,184	1,275,808	0	(46,535)	(46,535)
Caring resale	13,306	14,919	0	0	1,613	1,613
Total business-type activities	2,125,833	805,103	1,275,808	0	(44,922)	(44,922)
Total	\$ 45,279,465	2,721,630	7,080,700	(35,432,213)	(44,922)	(35,477,135)
General Revenues:						
Property tax levied for:						
General purposes				\$ 12,480,896	0	12,480,896
Capital outlay				871,234	0	871,234
Local option sales and services tax				2,869,228	0	2,869,228
Unrestricted state grants				22,187,815	0	22,187,815
Unrestricted investment earnings				677,956	9,037	686,993
Other				63,723	0	63,723
Total general revenues				39,150,852	9,037	39,159,889
Changes in net assets				3,718,639	(35,885)	3,682,754
Net assets beginning of year				8,112,150	678,929	8,791,079
Net assets end of year				\$ 11,830,789	643,044	12,473,833

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Special Revenue- Management Levy	Other Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments:					
ISCAP(Note 5)	\$ 5,000,370	0	0	0	5,000,370
Other	262,409	10,516,176	1,153,883	1,960,876	13,893,344
Receivables:					
Property tax					
Delinquent	169,306	0	24,590	13,305	207,201
Succeeding year	12,044,413	0	1,800,000	958,509	14,802,922
Interfund	2,700,269	0	0	1,131,725	3,831,994
Accounts	18,955	0	0	1,000	19,955
Accrued ISCAP interest(Note 5)	31,590	0	0	0	31,590
Due from other governments	781,335	466,171	0	0	1,247,506
Prepaid expenses	0	0	409,377	0	409,377
Inventories	48,211	0	0	0	48,211
Total Assets	\$ 21,056,858	10,982,347	3,387,850	4,065,415	39,492,470
Liabilities and Fund Balances					
Liabilities:					
Excess of warrants issued over					
bank balance	\$ 0	0	0	993,398	993,398
Interfund payable	0	0	2,362,709	1,380,092	3,742,801
Accounts payable	248,496	1,340,476	0	7,500	1,596,472
Salaries and benefits payable	3,758,518	0	0	0	3,758,518
Deferred revenue:					
Succeeding year property tax	12,044,413	0	1,800,000	958,509	14,802,922
Other	154,293	0	0	0	154,293
ISCAP warrants payable(Note 5)	5,000,000	0	0	0	5,000,000
ISCAP accrued interest payable(Note 5)	27,331	0	0	0	27,331
ISCAP unamortized premiums payable	36,003	0	0	0	36,003
Total liabilities	21,269,054	1,340,476	4,162,709	3,339,499	30,111,738
Fund balances:					
Reserved for:					
Debt service	0	0	0	138,327	138,327
Salary improvement program	41,064	0	0	0	41,064
Unreserved	(253,260)	9,641,871	(774,859)	587,589	9,201,341
Total fund balances	(212,196)	9,641,871	(774,859)	725,916	9,380,732
Total Liabilities and Fund Balances	\$ 21,056,858	10,982,347	3,387,850	4,065,415	39,492,470

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$ 9,380,732
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	31,310,702
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	2,040,769
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(206,429)
Long-term liabilities, including bonds payable, revenue bond anticipatory notes, capital loan notes, early retirement and compensated absences, are not due and payable in the current period and, are not reported as liabilities in the governmental funds.	<u>(30,694,985)</u>
Net assets of governmental activities (page 14)	<u><u>\$ 11,830,789</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Special Revenue- Management Levy	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 10,898,036	2,869,228	1,582,860	871,234	16,221,358
Tuition	763,379	0	0	0	763,379
Other	761,678	389,483	19,274	812,000	1,982,435
State sources	25,372,510	0	1,530	798	25,374,838
Federal sources	2,530,261	0	0	0	2,530,261
Total revenues	40,325,864	3,258,711	1,603,664	1,684,032	46,872,271
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	15,410,271	0	0	0	15,410,271
Special instruction	6,481,420	0	0	0	6,481,420
Other instruction	4,884,225	0	0	750,981	5,635,206
	26,775,916	0	0	750,981	27,526,897
Support services:					
Student services	1,690,065	0	0	0	1,690,065
Instructional staff services	1,955,991	117,266	0	46,338	2,119,595
Administration services	3,144,727	0	1,409,675	1,563	4,555,965
Operation and maintenance of plant services	3,251,953	0	100,628	0	3,352,581
Transportation services	1,085,648	0	0	0	1,085,648
	11,128,384	117,266	1,510,303	47,901	12,803,854
Non-instructional programs:					
Community service and other enterprise operations	31,377	0	0	68,957	100,334
Other expenditures:					
Facilities acquisitions	0	14,595,977	0	259,662	14,855,639
Long-term debt:					
Principal	0	0	0	1,557,000	1,557,000
Interest and fiscal charges	0	0	0	1,250,195	1,250,195
AEA flowthrough	1,569,129	0	0	0	1,569,129
	1,569,129	14,595,977	0	3,066,857	19,231,963
Total expenditures	39,504,806	14,713,243	1,510,303	3,934,696	59,663,048
Excess(deficiency) of revenues over(under) expenditures	821,058	(11,454,532)	93,361	(2,250,664)	(12,790,777)
Other financing sources(uses):					
Transfers in	0	0	0	2,798,709	2,798,709
Transfers out	0	(2,229,434)	0	(569,275)	(2,798,709)
Sale of bonds	0	870,000	0	0	870,000
Cost of issuance	0	(10,000)	0	0	(10,000)
Total other financing sources(uses)	0	(1,369,434)	0	2,229,434	860,000
Net change in fund balances	821,058	(12,823,966)	93,361	(21,230)	(11,930,777)
Fund balance beginning of year	(1,033,254)	22,465,837	(868,220)	747,146	21,311,509
Fund balance end of year	\$ (212,196)	9,641,871	(774,859)	725,916	9,380,732

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ (11,930,777)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 15,165,923	
Depreciation expense	<u>(545,405)</u>	14,620,518

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.

163,544

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issued, as follows:

Issued	\$ (870,000)	
Repaid	<u>1,557,000</u>	687,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,922

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ 162,561	
Compensated absences	<u>13,871</u>	176,432

Changes in net assets of governmental activities (page 15) \$ 3,718,639

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
Assets				
Cash and cash equivalents	\$ 446,709	41,517	488,226	2,167,358
Accounts receivable	6,932	0	6,932	557,846
Inventories	33,890	0	33,890	0
Capital assets, net of accumulated depreciation (Note 6)	250,359	0	250,359	0
Total Assets	737,890	41,517	779,407	2,725,204
Liabilities				
Interfund payable	89,193	0	89,193	0
Accounts payable	11,878	0	11,878	0
Salary and benefits payable	35,292	0	35,292	0
Incurred but not reported claims	0	0	0	684,435
Total Liabilities	136,363	0	136,363	684,435
Net Assets				
Investment in capital assets	250,359	0	250,359	0
Unrestricted	351,168	41,517	392,685	2,040,769
Total Net Assets	\$ 601,527	41,517	643,044	2,040,769

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 790,184	14,919	805,103	5,675,073
TOTAL OPERATING REVENUES	790,184	14,919	805,103	5,675,073
OPERATING EXPENSES:				
Salaries	818,714	0	818,714	0
Benefits	150,890	0	150,890	5,511,529
Services	70,664	0	70,664	0
Supplies	1,028,291	13,306	1,041,597	0
Depreciation	39,932	0	39,932	0
TOTAL OPERATING EXPENSES	2,108,491	13,306	2,121,797	5,511,529
OPERATING INCOME (LOSS)	(1,318,307)	1,613	(1,316,694)	163,544
NON-OPERATING REVENUES:				
Interest income	7,566	1,471	9,037	0
State sources	23,774	0	23,774	0
Federal sources	1,252,034	0	1,252,034	0
TOTAL NON-OPERATING REVENUES	1,283,374	1,471	1,284,845	0
Changes in net assets before other financing uses	(34,933)	3,084	(31,849)	163,544
OTHER FINANCING USES:				
Loss on disposal of capital assets	(4,036)	0	(4,036)	0
Net income(loss)	(38,969)	3,084	(35,885)	163,544
Net assets at beginning of year	640,496	38,433	678,929	1,877,225
Net assets end of year	\$ 601,527	41,517	643,044	2,040,769

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 780,992	0	780,992	0
Cash received from miscellaneous operating activities	0	14,919	14,919	5,990,346
Cash payments to employees for services	(934,312)	0	(934,312)	(5,490,494)
Cash payments to suppliers for goods or services	(986,379)	(13,306)	(999,685)	0
Net cash provided by(used in) operating activities	(1,139,699)	1,613	(1,138,086)	499,852
Cash flows from non-capital financing activities:				
Repayment of interfund loan from the General Fund	(32,137)	0	(32,137)	0
State grants received	23,774	0	23,774	0
Federal grants received	1,179,958	0	1,179,958	0
Net cash provided by non-capital financing activities	1,171,595	0	1,171,595	0
Cash flows from investing activities:				
Interest on investments	7,566	1,471	9,037	0
Cash flows from capital financing activities:				
Purchase of assets	(16,180)	0	(16,180)	0
Net increase in cash and cash equivalents	23,282	3,084	26,366	499,852
Cash and cash equivalents at beginning of year	423,427	38,433	461,860	1,667,506
Cash and cash equivalents at end of year	\$ 446,709	41,517	488,226	2,167,358
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (1,318,307)	1,613	(1,316,694)	163,544
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	72,076	0	72,076	0
Depreciation	39,932	0	39,932	0
Decrease in inventories	28,622	0	28,622	0
Decrease(Increase) in accounts receivable	(6,932)	0	(6,932)	315,273
Increase in accounts payable	11,878	0	11,878	0
Increase in salary and benefits payable	35,292	0	35,292	0
Increase in incurred but not reported	0	0	0	21,035
Decrease in unearned revenue	(2,260)	0	(2,260)	0
Net cash provided by(used in) operating activities	\$ (1,139,699)	1,613	(1,138,086)	499,852
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 446,709	41,517	488,226	2,167,358

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$72,076.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 43,941
Liabilities	0
Net Assets	
Reserved for scholarships	\$ 43,941

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest on investments	\$ 1,528
Total additions	<u>1,528</u>
Deletions:	
Scholarships awarded	500
Total deletions	<u>500</u>
Change in net assets	1,028
Net assets beginning of year	<u>42,913</u>
Net assets end of year	<u><u>\$ 43,941</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Marshalltown Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Marshalltown, Iowa, and the predominate agricultural territory in Marshall County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Marshalltown Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Marshalltown Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District reports the following proprietary funds:

The District's proprietary funds are the School Nutrition Fund and the Caring Resale Fund. The School Nutrition Fund

is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these

pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough

thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment

companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 513,666

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 89,193
General	Management	2,362,709
General	Activity	50,000
General	PPEL	198,367
Debt Service	PPEL	1,131,725
Total		\$ 3,831,994

(4) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	PPEL	\$ 569,275
Debt Service	Capital Projects	2,229,434
Total		\$ 2,798,709

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a

semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 1,505,235	30,503	1,500,000	26,441
2006-07A	6/28/06	6/28/07	3,495,135	1,087	3,500,000	890
Total			<u>\$ 5,000,370</u>	<u>31,590</u>	<u>5,000,000</u>	<u>27,331</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	2,000,000	2,000,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 468,403	78,524	0	546,927
Construction in progress	4,753,347	14,723,242	2,708,526	16,768,063
Total capital assets not being depreciated	5,221,750	14,801,766	2,708,526	17,314,990
Capital assets being depreciated:				
Buildings	21,368,555	2,648,970	0	24,017,525
Land improvements	138,433	184,255	0	322,688
Machinery and equipment	5,601,007	239,458	319,438	5,521,027
Total capital assets being depreciated	27,107,995	3,072,683	319,438	29,861,240
Less accumulated depreciation for:				
Buildings	10,408,227	447,811	0	10,856,038
Land improvements	138,433	9,213	0	147,646
Machinery and equipment	5,092,901	88,381	319,438	4,861,844
Total accumulated depreciation	15,639,561	545,405	319,438	15,865,528
Total capital assets being depreciated, net	11,468,434	2,527,278	0	13,995,712
Governmental activities capital assets, net	\$ 16,690,184	17,329,044	2,708,526	31,310,702
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 679,053	16,180	53,595	641,638
Less accumulated depreciation	400,906	39,932	49,559	391,279
Business-type activities capital assets, net	\$ 278,147	(23,752)	4,036	250,359

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 19,426
Support services:	
Instructional staff services	8,167
Administration services	2,179
Operation and maintenance of plant services	450
Transportation	58,159
	88,381
Unallocated depreciation	457,024
Total governmental activities depreciation expense	\$ 545,405
Business-type activities:	
Food services	\$ 39,932

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 24,930,000	870,000	200,000	25,600,000	900,000
Revenue bonds	802,000	0	802,000	0	0
Capital loan notes	555,000	0	555,000	0	0
Early retirement	5,161,975	1,011,052	1,173,613	4,999,414	1,153,368
Compensated absences	109,442	95,571	109,442	95,571	95,571
Total	\$ 31,558,417	1,976,623	2,840,055	30,694,985	2,148,939

General Obligation

Details of the District's June 30, 2006 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2002			Bond Issue of July 1, 2004		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2007	4.00 % \$	200,000	25,000	4.00 % \$	700,000	1,184,350
2008	4.20	200,000	17,000	4.00	740,000	1,156,350
2009	4.30	200,000	8,600	4.00	775,000	1,126,750
2010		-	-	5.00	1,015,000	1,095,750
2011		-	-	5.00	1,065,000	1,045,000
2012-2016		-	-	5.00	6,190,000	4,370,250
2017-2021		-	-	5.00	7,890,000	2,660,500
2022-2024		-	-	5.00	5,755,000	585,250
Total		\$ 600,000	50,600		\$ 24,130,000	13,224,200

Bond Issue of June 1, 2006			Total		
Interest Rates	Principal	Interest	Principal	Interest	Total
4.65 % \$	-	37,084	\$ 900,000	1,246,434	2,146,434
4.65	-	40,455	940,000	1,213,805	2,153,805
4.65	-	40,455	975,000	1,175,805	2,150,805
4.65	-	40,455	1,015,000	1,136,205	2,151,205
4.65	-	40,455	1,065,000	1,085,455	2,150,455
4.65	-	202,275	6,190,000	4,572,525	10,762,525
4.65	570,000	145,777	8,460,000	2,806,277	11,266,277
4.65	300,000	27,900	6,055,000	613,150	6,668,150
	\$ 870,000	574,856	\$ 25,600,000	13,849,656	39,449,656

Early Retirement

The District has in place a retirement incentive plan, that provides a monthly stipend based in a percentage of the employee's last full time contract. This stipend continues until the retiree reaches the age of 65. Early retirement benefits paid during the year ended June 30, 2006, totaled \$1,173,613. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$1,380,152, \$1,353,188 and \$1,455,131 respectively, equal to the required contributions for each year.

(9) Risk Management

The District has a self-funded health insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered individual. Settle claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was a \$2,040,769 at June 30, 2006. The incurred but not recorded and unpaid claims liability of \$684,435 reported in the plan at June 30, 2006 based on the requirements of GASB Statement Number 10, is set up as a liability on the statement of net assets.

In addition, the District is exposed to various risks to loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The

District's actual amount for this purpose totaled \$1,569,129 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance

The District has a deficit undesignated fund balances in the General Fund and Special Revenue, Management Fund of \$212,196 and \$774,859, respectively.

(12) Construction Commitment

The District has entered into various contracts totaling \$21,826,301 for Hoglan Elementary and Miller Middle School Projects. As of June 30, 2006, costs of \$16,768,063 had been incurred against the contracts. The balance of \$5,068,237 remaining at June 30, 2006 will be paid as work on the projects progresses.

REQUIRED SUPPLEMENTARY INFORMATION

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds				Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 18,967,172	814,140	19,781,312	19,495,138	19,495,138	286,174
State sources	25,374,838	23,774	25,398,612	25,391,357	25,391,357	7,255
Federal sources	2,530,261	1,252,034	3,782,295	3,961,956	3,961,956	(179,661)
Total revenues	46,872,271	2,089,948	48,962,219	48,848,451	48,848,451	113,768
Expenditures:						
Instruction	27,526,897	0	27,526,897	28,491,886	28,491,886	964,989
Support services	12,803,854	0	12,803,854	12,825,772	12,825,772	21,918
Non-instructional programs	100,334	2,121,797	2,222,131	2,464,336	2,464,336	242,205
Other expenditures	19,231,963	0	19,231,963	23,977,826	23,977,826	4,745,863
Total expenditures	59,663,048	2,121,797	61,784,845	67,759,820	67,759,820	5,974,975
Excess(deficiency) of revenues over(under) expenditures	(12,790,777)	(31,849)	(12,822,626)	(18,911,369)	(18,911,369)	6,088,743
Other financing sources, net	860,000	(4,036)	855,964	0	0	855,964
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(11,930,777)	(35,885)	(11,966,662)	(18,911,369)	(18,911,369)	6,944,707
Balance beginning of year	21,311,509	678,929	21,990,438	23,919,013	23,919,013	(1,928,575)
Balance end of year	\$ 9,380,732	643,044	10,023,776	5,007,644	5,007,644	5,016,132

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds						
	Physical		Public		Total	Debt	Total
	Plant and	Equipment	Education and	Recreation			
	Student	Levy	Levy	Expendable	Special	Service	Nonmajor
	Activity			Trust	Revenue		Governmental
							Funds
Assets							
Cash and pooled investments	\$ 190,777	1,576,843	181,064	12,192	1,960,876	0	1,960,876
Receivables:							
Property tax:							
Current year delinquent	0	11,779	1,526	0	13,305	0	13,305
Succeeding year	0	850,982	107,527	0	958,509	0	958,509
Interfund	0	0	0	0	0	1,131,725	1,131,725
Accounts	0	1,000	0	0	1,000	0	1,000
Total Assets	\$ 190,777	2,440,604	290,117	12,192	2,933,690	1,131,725	4,065,415
Liabilities and Fund Balances							
Liabilities:							
Excess of warrants issued over							
bank balance	\$ 0	0	0	0	0	993,398	993,398
Interfund payable	50,000	1,330,092	0	0	1,380,092	0	1,380,092
Accounts payable	0	7,500	0	0	7,500	0	7,500
Deferred revenue:							
Succeeding year property tax	0	850,982	107,527	0	958,509	0	958,509
	50,000	2,188,574	107,527	0	2,346,101	993,398	3,339,499
Fund balances:							
Reserved for debt service	0	0	0	0	0	138,327	138,327
Unreserved	140,777	252,030	182,590	12,192	587,589	0	587,589
Total fund balances	140,777	252,030	182,590	12,192	587,589	138,327	725,916
Total Liabilities and Fund Balances	\$ 190,777	2,440,604	290,117	12,192	2,933,690	1,131,725	4,065,415

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total	
	Physical	Public				Other	
	Plant and	Education and		Total		Nonmajor	
	Student	Equipment	Recreation	Expendable	Special	Debt	Governmental
	Activity	Levy	Levy	Trust	Revenue	Service	Funds
REVENUES:							
Local sources:							
Local tax	\$ 0	773,001	98,233	0	871,234	0	871,234
Other	759,912	33,752	9,294	2,070	805,028	6,972	812,000
State sources	0	703	95	0	798	0	798
TOTAL REVENUES	759,912	807,456	107,622	2,070	1,677,060	6,972	1,684,032
EXPENDITURES:							
Current:							
Instruction:							
Other instruction	749,981	0	0	1,000	750,981	0	750,981
Support services:							
Instructional staff services	0	46,338	0	0	46,338	0	46,338
Administration services	0	0	0	0	0	1,563	1,563
Non-instructional:							
Community service and other							
enterprise operations	0	0	68,957	0	68,957	0	68,957
Other expenditures:							
Facilities acquisition	0	236,505	23,157	0	259,662	0	259,662
Long-term debt:							
Principal	0	0	0	0	0	1,557,000	1,557,000
Interest and fiscal charges	0	0	0	0	0	1,250,195	1,250,195
TOTAL EXPENDITURES	749,981	282,843	92,114	1,000	1,125,938	2,808,758	3,934,696
Excess(deficiency) of revenue over							
(under) expenditures	9,931	524,613	15,508	1,070	551,122	(2,801,786)	(2,250,664)
Other financing sources(uses):							
Transfers in	0	0	0	0	0	2,798,709	2,798,709
Transfers out	0	(569,275)	0	0	(569,275)	0	(569,275)
Total other financing sources(uses)	0	(569,275)	0	0	(569,275)	2,798,709	2,229,434
Excess(deficiency) of revenue and							
other financing sources over(under)							
expenditures and other financing							
uses	9,931	(44,662)	15,508	1,070	(18,153)	(3,077)	(21,230)
Fund balance beginning of year	130,846	296,692	167,082	11,122	605,742	141,404	747,146
Fund balance end of year	\$ 140,777	252,030	182,590	12,192	587,589	138,327	725,916

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Senior High School	\$ 90,608	499,771	507,422	82,957
Anson Middle School	8,577	74,168	82,745	0
Miller Middle School	(31,052)	155,366	119,320	4,994
Anson Elementary School	3,266	3	0	3,269
Fisher Elementary School	10,376	6,429	11,028	5,777
Franklin Elementary School	4,063	1,916	1,321	4,658
Hoglan Elementary School	7,641	18,824	25,878	587
Rogers Elementary School	1,195	1	317	879
Woodbury Elementary School	36,172	3,434	1,950	37,656
Total	\$ 130,846	759,912	749,981	140,777

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST ACCOUNTS
 JUNE 30, 2006

	Kiser Memorial	Supinger Memorial	White Memorial	Total
Assets				
Cash and pooled investments	\$ 4,889	29,854	9,198	43,941
Liabilities				
Liabilities:	0	0	0	0
Net Assets				
Reserved for scholarships	\$ 4,889	29,854	9,198	43,941

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2006

	Kiser Memorial	Supinger Memorial	White Memorial	Total
Additions:				
Local sources:				
Interest on investments	\$ 168	1,027	333	1,528
	168	1,027	333	1,528
Deletions				
Scholarships awarded	0	0	500	500
	0	0	500	500
Changes in net assets	168	1,027	(167)	1,028
Net assets beginning of year	4,721	28,827	9,365	42,913
Net assets end of year	\$ 4,889	29,854	9,198	43,941

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 16,221,358	14,959,584	11,593,268	11,650,804
Tuition	763,379	658,440	610,311	631,562
Other	1,982,435	1,956,450	1,529,229	1,489,683
State sources	25,374,838	24,175,261	22,767,651	22,639,199
Federal sources	2,530,261	2,986,008	4,026,455	2,628,709
Total	<u>\$ 46,872,271</u>	<u>44,735,743</u>	<u>40,526,914</u>	<u>39,039,957</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 15,410,271	16,448,312	15,701,301	15,915,399
Special instruction	6,481,420	5,691,633	7,219,374	6,659,921
Other instruction	5,635,206	4,333,260	2,874,639	2,877,112
Support services:				
Student services	1,690,065	2,425,533	2,422,512	2,175,732
Instructional staff services	2,119,595	1,603,247	1,645,564	1,684,562
Administration services	4,555,965	3,533,077	3,911,954	3,165,386
Operation and maintenance of plant services	3,352,581	2,837,917	2,934,819	2,881,455
Transportation services	1,085,648	1,044,119	1,042,819	1,013,771
Central support services	0	507,834	507,200	453,544
Non-instructional programs:				
Community service and other enterprise operations	100,334	133,200	87,783	102,501
Other expenditures:				
Facilities acquisitions	14,855,639	5,721,204	2,561,731	2,480,724
Long Term Debt:				
Principal	1,557,000	735,000	700,000	170,000
Interest	1,250,195	1,054,408	102,334	64,751
AEA flow-through	1,569,129	1,493,820	1,471,610	1,504,345
Total	<u>\$ 59,663,048</u>	<u>47,562,564</u>	<u>43,183,640</u>	<u>41,149,203</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
FUND FOR THE IMPROVEMENT OF			
EDUCATION (CAROL M. WHITE PHYSICAL			
EDUCATION PROGRAM)	84.215	FY 06	\$ 170,743
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	72,076
FRUIT AND VEGETABLE PILOT PROGRAM	10.582	FY 06	15,094
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	222,631
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	931,591
SPECIAL MILK	10.556	FY 06	10,642
			1,164,864
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	4105-G-05	35,653
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	FY 06	128,676
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	4105-G	524,440
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	4105-M	97,400
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	4105-GC	71,681
			857,850
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 06	16,809
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - NATIONAL PROGRAM	84.184	FY 06	37,365
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - STATE GRANTS	84.186	FY 05	19,164
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - STATE GRANTS	84.186	FY 06	4,759
			23,923

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Schedule 7

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED)			
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 05	70,505
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 06	98,504
			<u>169,009</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 05	7,860
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 06	28,120
			<u>35,980</u>
BILINGUAL EDUCATION - COMPREHENSIVE SCHOOL GRANTS	84.290	FY 06	<u>210,071</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (BILINGUAL GRANT)	84.215	FY 05	28,288
FUND FOR THE IMPROVEMENT OF EDUCATION (SMALLER LEARNING COMMUNITIES PROGRAM)	84.215	FY 06	345,961
			<u>374,249</u>
TITLE III - ENGLISH LANGUAGE ACQUISITION	84.365	FY 06	<u>85,378</u>
IOWA PUBLIC TELEVISION: STAR SCHOOLS	84.203	FY 06	<u>775</u>
AREA EDUCATION AGENCY: VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	<u>56,773</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	<u>308,807</u>
TOTAL			<u>\$ 3,599,766</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Marshalltown Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Marshalltown Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marshalltown Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 9, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marshalltown Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marshalltown Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain

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immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Marshalltown Community School District and other parties to whom Marshalltown Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Marshalltown Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

November 9, 2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Marshalltown Community School District:

Compliance

We have audited the compliance of Marshalltown Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Marshalltown Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Marshalltown Community School District's management. Our responsibility is to express an opinion on Marshalltown Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marshalltown Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marshalltown Community School District's compliance with those requirements.

In our opinion, Marshalltown Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Marshalltown Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Marshalltown Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in

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our judgment, could adversely affect Marshalltown Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marshalltown Community School District and other parties to whom Marshalltown Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be use by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

November 9, 2006

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.556 - Special Milk
 - Individual
 - CFDA Number 84.027 - Special Education - Grants to States (Part B)
 - CFDA Number 84.215 - Fund for the Improvement of Education(Bilingual Grant)
 - CFDA Number 84.215 - Fund for the Improvement of Education(Carol M. White Physical Education Program)
 - CFDA Number 84.215 - Fund for the Improvement of Education (Smaller Learning Communities Program)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Marshalltown Community School District did not qualify as a low-risk auditee.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the Student Activity and the School Nutrition Funds, that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- II-B-06 Parking Rents/Fees - We noted during our audit that the district receives money for use of facilities in the form of parking fees which was recorded in the Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - We will comply.

Conclusion - Response accepted.

- II-C-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District has submitted the outstanding checks to the Treasurer of Iowa as unclaimed property.

Conclusion - Response accepted.

- II-D-06 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events. The District currently receipts this into the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - As the rental policy has been update, the District will implement procedures to follow policy and receipt funds accordingly.

Conclusion - Response accepted.

- II-E-06 Gate Admissions - We noted during our audit that the gate admissions were not always reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will investigate with building administrators as to the process to follow.

Conclusion - Response accepted.

- II-F-06 Check Signatures - We noted during our audit, instances of unauthorized signatures on the District's checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - We will check with the board president as to obtaining authority to sign checks in the future.

Conclusion - Response accepted.

- II-G-06 Deposits Slips - We noted during our audit instances of deposit slips which lacked detail support for what was deposited into the bank.

Recommendation - The District should improve the detail on the deposit slips to show which receipts make up the deposits.

Response - We will emphasize more detail on the deposit slips.

Conclusion - Response accepted.

- II-H-06 Timely Deposits - We noted during our audit that deposits for the Enterprise, Daycare Fund were prepared but may not be taken to the bank for deposit until several days/weeks later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - We will work with building administrators to make more timely deposits.

Conclusion - Response accepted.

- II-I-06 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall

not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will work to educate building administrators as to the proper use of activity funds.

Conclusion - Response accepted.

- II-J-06 Pre-numbered Receipts - We noted during our audit that the Student Activity Fund does not use pre-numbered receipts when money is turned into the Activities office.

Recommendation - Better internal controls are achieved if the District uses pre-numbered receipts, and reconciles the receipts to deposits and revenues posted when performing bank reconciliations. The District should review their procedures to ensure that internal control processes are being utilized.

Response - We will work to implement a pre-numbered receipt system in the activity fund with the building administrators.

Conclusion - Response accepted.

- II-K-06 Nutrition Fund Invoices - We noted during our audit that the District is paying Nutrition Fund bills from statements and not invoices. We also noted that invoices are also not being properly approved for payment.

Recommendation - The District should present the bills for payment to the Board for proper approval in accordance with the district policy of payment of goods. The District should also pay bills only from approved invoices not statements, as a statement does not provide enough detail to determine the product purchases and therefore allow ability is almost impossible to determine.

Response - The District will work towards integrating the Nutrition Fund bills into the Central Office and pay invoices from the bills.

Conclusion - Response accepted.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.555: Fruit and Vegetable Pilot
CFDA Number 10.556: Special Milk
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the School Nutrition Fund, that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, did not exceed the amount budgeted.

IV-B-06 Questionable Disbursements - We noted during our audit that there was an invoice paid from the General Fund to Muddy Waters Coffee Co. for beverages and room rental in the amount of \$43. The invoice fails to document the public purpose served.

Recommendation - The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria.

Response - The District will encourage vendors to provide more detail on invoices when additional documentation may be necessary.

Conclusion - Response accepted.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Adland, Bus Driver Owns Adland Engraving Co.	Supplies	\$20,471
Adrienne MacMillen, Board Member Employed by Wells Fargo		

According to Attorney General's Opinion dated July 2, 1990 the above transactions with the bus driver does not appear to represent a conflict of interest. According to Attorney General's Opinion dated November 9, 1976, the above transaction with the Board Member doesn't appear to represent a conflict of interest.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely.

Recommendation - The District should review the procedures associated with the Certified Annual Report. The District should file the report timely.

Response - The District will file the CAR timely in the future.

Conclusion - Response accepted.

IV-J-06 Financial Condition - During our audit we noted that the District had deficit fund balances in the General Fund of \$212,196 and in the Special Revenue, Management Fund of \$774,859.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - We are monitoring these funds and are working to eliminate the deficits.

Conclusion - Response accepted.

IV-K-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We will request Wells Fargo to provide cancelled check images.

Conclusion - Response accepted.